

## Statement on Gaps in Information on East German Military Finance

### Background

Assessing the full economic impact of the military programs and activities of the USSR requires that the relationships and commitments of the USSR via a - via the other Bloc countries, and vice versa, be considered. Primary interest in the USSR, however, does not obviate the requirement for the same measures of impact for these other countries. East Germany, with a considerable Soviet force stationed within her boundaries, is of particular significance in both respects.

Additional benefit may also derive from information on such countries as East Germany: the USSR has cast the Satellites in her image -- hence, certain practices found applicable in these countries may be pertinent to the USSR as well.

Little information bearing directly on the burdens of Bloc military efforts, and the feasibility of given programs in terms of cost, is openly revealed. East Germany does announce a budgetary allocation labelled Defense which, in and of itself, is of limited usefulness. It is clear though that it hardly represents their total outlay for militarily significant programs and activities.

Because the necessary information is so tightly held it is necessary to construct suitable estimates of the pertinent programs and activities. The procedure employed basically entails pricing the military programs and activities in as detailed a fashion as possible. Essentially, the raw information fundamental to these estimates are minutia obtained in large part through clandestine and defector reports.

The availability of the information requested is likely to be limited to very few places. Among these would be the Ministries of Finance and Defense (the Finance Directorate), the State Bank (its secret section), the Ministry of Trade and to a lesser extent at headquarters (finance units) of military units above the division level.

Information of the sort requested would contribute to the estimates of Soviet military expenditures that are regular contributions to the II-4 series of National Intelligence Estimates (Soviet Capabilities and Probable Courses of Action) and would also be useful in preparing contributions to National Intelligence Estimates on the Satellites and on trade.

Although several parts of the IPC list have some relevance, section II & covers the major part of the field of military economics.

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Requirements

I. Occupation Costs

According to Soviet and East German announcements the payment of occupation costs by East Germany is to terminate by the end of this year (1958). Regardless, information as to past - as well as present and future - practice with regard to these payments is desired.

A. What is the amount of the occupation costs on an annual basis? In amplification:

1. During the period of announced occupation costs, did these announced figures represent the totality of such payments?
2. With the announced termination of occupation costs - is it planned to institute some new and hidden form of payment in their place or to continue an existing, hidden form of payment? Explain, citing amounts if appropriate.
3. From what sources -- budgetary or other -- do the East Germans obtain the funds? Be as specific as possible indicating, for example, the overall budget category and the subcategory thereof.
4. Are the announced, or other, payments of occupation costs meaningful in the stated currencies? For example, are the announced payments in DEMs, a realistic reflection of the real cost to East Germany of these payments? As further illustration:
  - a. Does the USSR receive preferential prices when expending the funds received as occupation costs?
  - b. What are the real values of these occupation costs? What are the bases for, and/or the means of, arriving at these figures?
5. Are there any other economic costs of the Soviet occupation that have not been already cited? As an example: do the East Germans turn over facilities and/or equipment that are not charged against the funds turned over as occupation costs? If so: how do the East Germans finance these costs? Which budgetary or other sources of funds are used?
6. How are these payments of occupation costs -- announced or otherwise -- treated by Soviet authorities? That is, what accounts (budgetary or other), if any, are credited upon receipt of these payments? Where in the Soviet hierarchy is the disposition and use of these funds controlled?

7. For what purposes are these payments used by the USSR? That is, if certain types of purchases predominate in the disposition of these funds by the USSR, what are they?

8. What are the mechanics of transferring these payments to Soviet authorities?

## II. East German Financing of Her Armed Forces

A. What is the relationship of the announced allocation labelled Defense to total outlays for military purposes?

B. What are the sources of funds besides those under Defense? Be specific -- what budgetary categories or other sources do they come from? What programs and activities do these funds finance?

1. Which organizations have responsibility for these other funds?

2. Is there a relationship between organizational structure and the source of these funds?

C. What programs and activities are financed by the announced allocation Defense?

D. What are the procedures for transferring funds allocated to military purposes, whatever the source, from their origin (e.g. a budgetary category) to the final recipient?

E. What is the extent of, and the sources of funds for, East German trade in military equipment. [See III below for a fuller treatment of this topic. This question may have been partially answered under B. above.]

## III. Military Trade

A. What is the total volume of trade in military equipment, on an annual basis -- in monetary and physical terms -- between East Germany and other Bloc countries? Differentiate between imports and exports. (Emphasis should be placed on East German trade with USSR.)

B. How are prices determined for the goods involved in these transactions and what are these prices?

C. What currencies are employed and what are the exchange rates (stated and actual) basic to these transactions?

D. What are the other terms of these transactions for military equipment?

E. What are the mechanics for effecting these transfers of goods?

F. Does the concept and practice of military assistance enter into trade in military items among these countries?

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